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Charity Flow-Through Financing Backgrounder

In the 1970's, the Canadian government, in an effort to increase investment in mineral and petroleum exploration, introduced the flow-through share program. A flow-through share is a type of common share that permits the initial purchaser to claim a tax deduction equal to the amount invested. The flow-through share program allows public companies to transfer to investors certain exploration expenditure tax credits conducted on Canadian soil.

In 2006, the Canadian government eliminated capital gains on the donation of publicly traded shares to registered charities.

Charity Flow-Through Financings simply combine these two tax policies, so that investors are able to reduce their taxes, and if they wish to, give those deductions to charities of their choice, for a second tax deduction.

Essentially, investors purchase flow-through shares for the 100 per cent tax deduction and donate them to charities of their choice. The shares are then sold to a pre-arranged liquidity provider at a pre-arranged discount a moment later, eliminating any stock market risk. The charity receives the cash proceeds, and issues a donation tax receipt to the donor, generating a second 100 per cent tax deduction. Some investors choose to keep the cash proceeds from the liquidity provider for themselves, generating at least a 25 per cent rate of return via tax savings with no stock market risk.

It's a tried-and-tested model, with nine advanced tax rulings that have enabled thousands of tax filings and resulted in more than a billion dollars donated to charities all across Canada.

The impact on junior mining has also been profound, with billions of dollars in flow-through financings for these fledgling companies.

In the April 2022 federal budget, the Canadian government introduced an enhanced tax credit on critical minerals. Explorations involving critical minerals, such as copper, nickel, lithium and cobalt, will now generate a 30 per cent tax credit (or a 60 per cent tax deduction), on top of the 100 per cent tax deductions from the flow-through structure.

The significance of this Critical Mineral Exploration Tax Credit should not be underestimated. According to a recent report by the World Bank, the production of critical minerals could increase nearly 500 per cent by 2050 to meet the surging demand for clean energy. We need cobalt for electric car batteries, copper for solar panels and circuit boards, and uranium for life-saving medical equipment. With enormous potential for discovery of mineral resources in this country, Canada is well positioned to benefit from the looming critical minerals rush.

This new measure is an important strategy, as is the more than $3.8 billion federal investment in new infrastructure spending to support exploration for these critical minerals. Indeed, it is part of a much wider geopolitical move by Canada to discover metals and minerals that are essential to the future of both our country and the planet. Last year, the governments of Canada, the United States and Australia joined forces and launched the Critical Minerals Mapping Initiative, which is designed to research and discover known deposits of critical minerals.

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